Energy Services and PPP for COVID Recovery

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World Bank

PRIF Week
October 14, 2021

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1. Impacts of COVID-19 on energy sector and PPPs

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2. Energy sector needs and opportunities in the Pacific

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3. Towards resilient recovery

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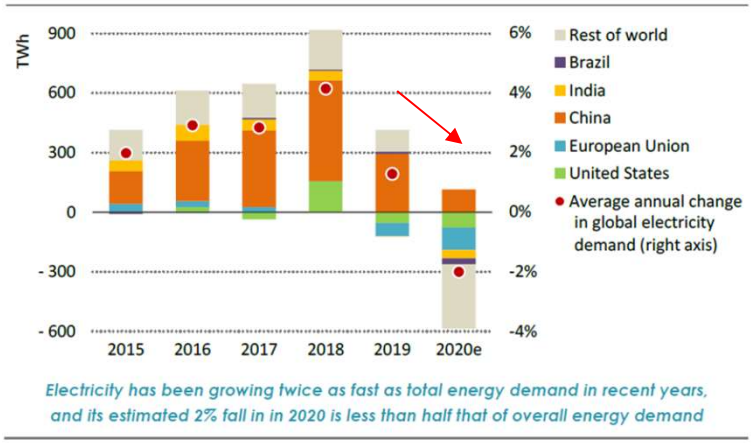
Impacts of COVID-19 on energy sector

...globally

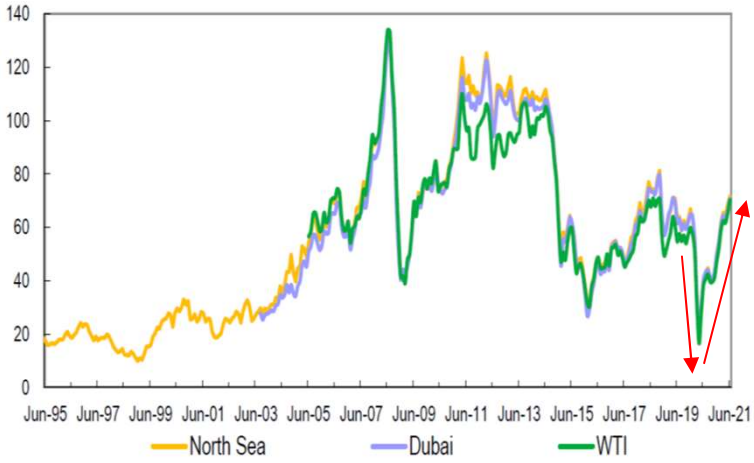
Change in Electricity Demand by Region



Note: TWh = terawatt-hours; 2020e = estimated values for 2020.

Source: IEA World Energy Outlook 2020

Average crude oil spot prices (US$/barrel)



Source: IEA Key World Energy Statistics 2021

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...and in the Pacific

PNG Power Limited (Papua New Guinea)

-12%

Drop in peak demand during the first 14 days of outbreak

-40%

Decrease in sales during the first week of outbreak

Source: PNG Power Limited

Solomon Power (Solomon Islands)

-13%

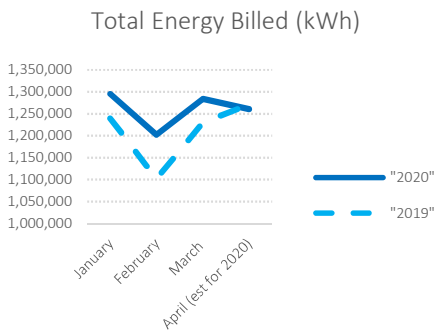
Drop in peak demand in April 2020

-23%

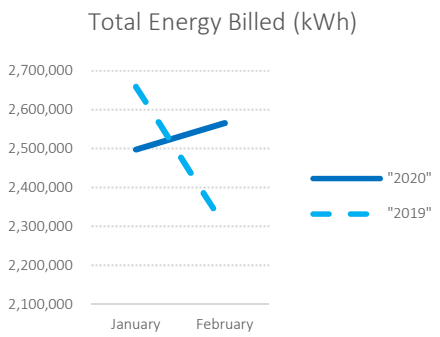
Reduction in diesel fuel consumption for power generation

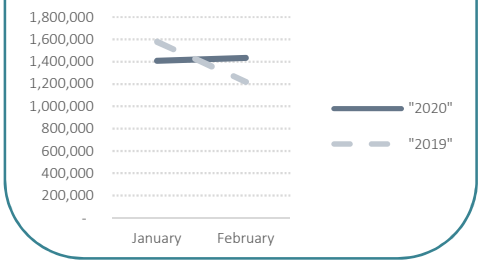
Source: Solomon Power

Chuuk Public Utility Corporation (FSM)



Nauru Utilities Corporation (Nauru)





Source: Pacific Power Association

Impacts of COVID-19 on PPPs

Primary COVID impacts

- Low growth, macroeconomic volatility
- Declines in user demand
- Supply disruptions
- Added health and safety regulations

Secondary COVID impacts

- Currency volatility
- Service standards compliance risk
- Inflation
- Reduced access and increased cost of credit
- Payment defaults
- Service delays
- Government policy actions

Potential impact on PPPs

- Liquidity risks
- Default risks
- Insolvency risks
- Increased costs

Compounded risks

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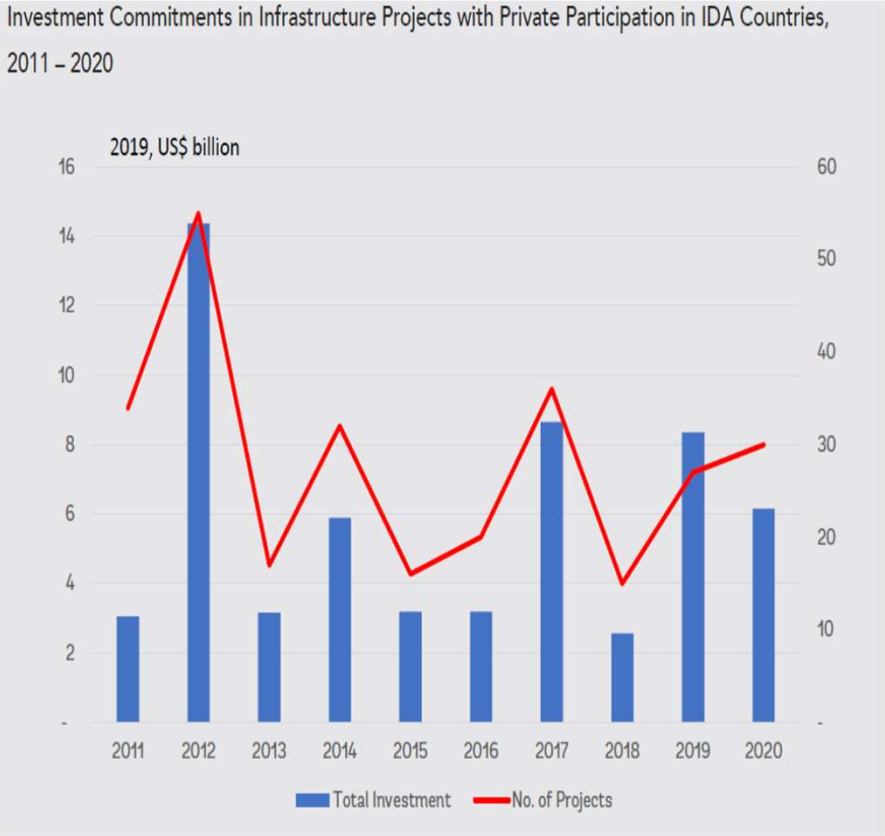
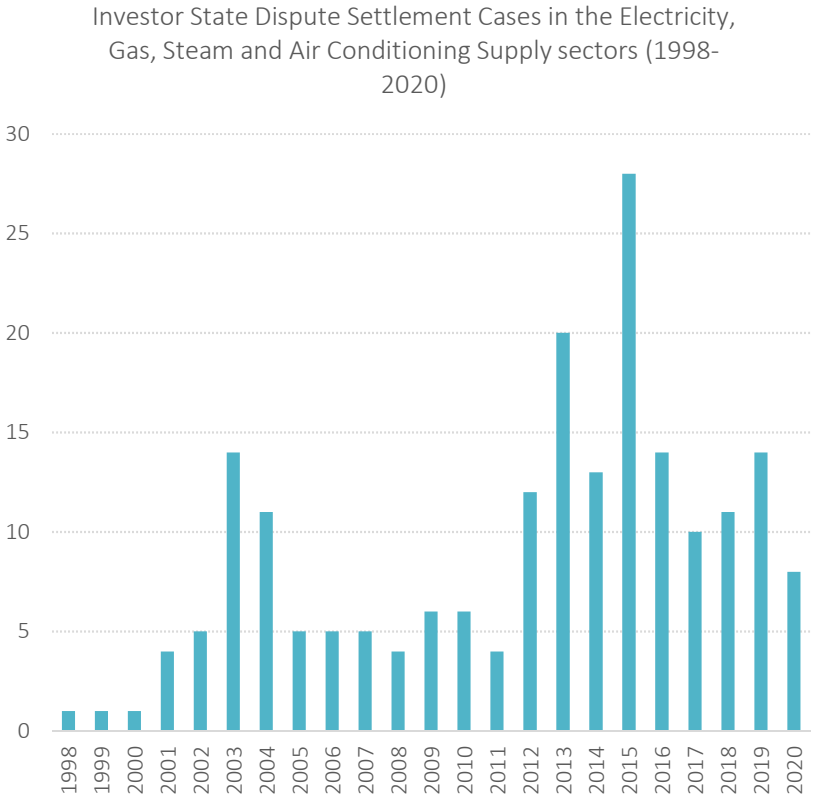
Private Participation in Infrastructure (PPI) fell in 2020



World Bank Private Participation in Infrastructure 2020 Annual Report



UNCTAD Investment Dispute Settlement Navigator

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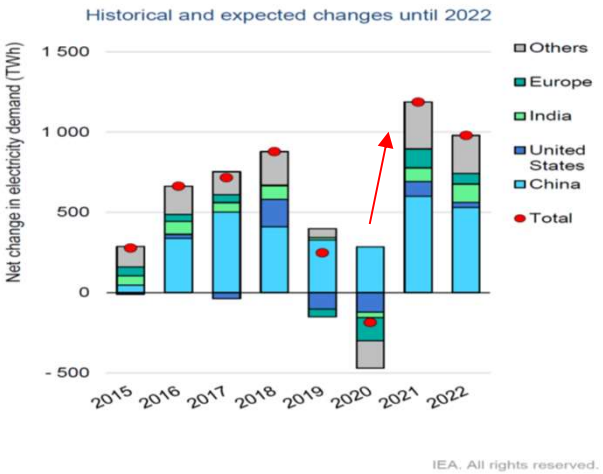
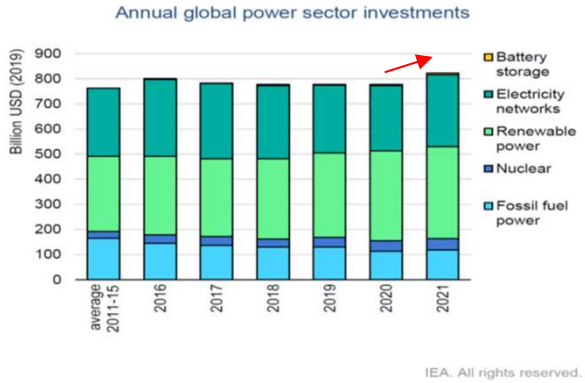
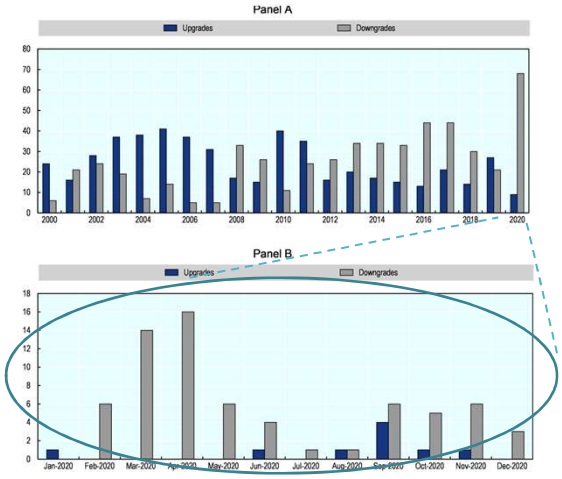
But there are early signs of recovery in terms of energy demand and investment, risk spreads...



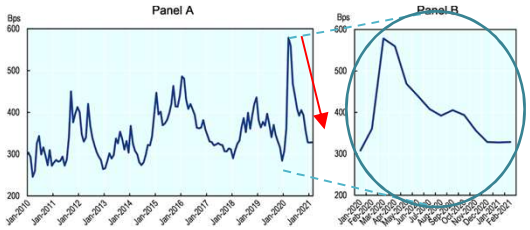


Source: IEA (2021), *World Energy Investment 2021*.

Changes in EM Sovereign Credit Ratings



Spreads on EM Sovereign Debt



OECD Sovereign Borrowing Outlook 2021

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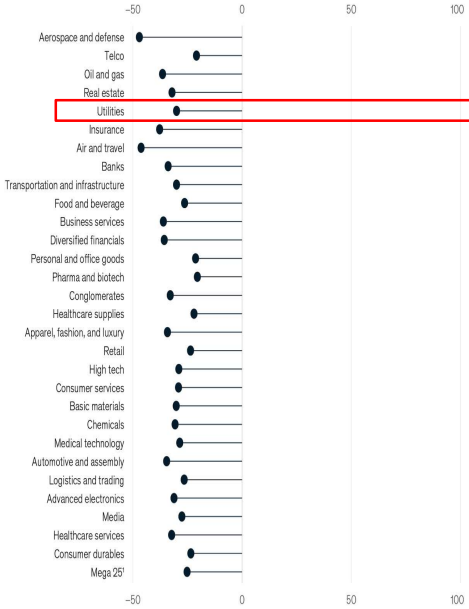
...and of market capitalization and performance

The stock market went through four acts.

Weighted average shareholder returns by industry since February 19, 2020, %

Act 1: Decline across sectors *(Mar 23, 2020)*



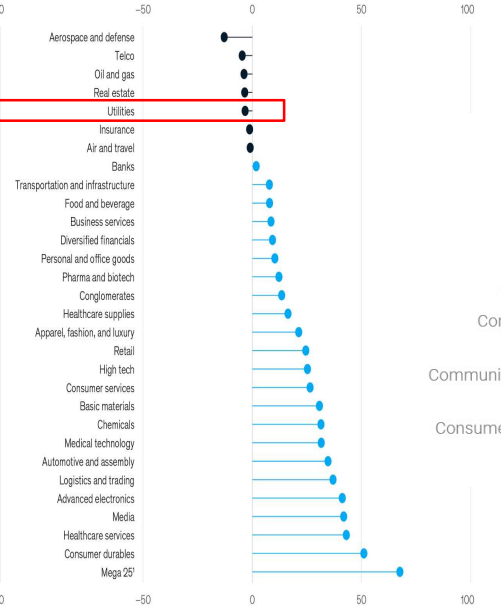
[1]A group of 25 companies with market-capitalization gains that place them in their own category.
Source: Corporate Performance Analytics; S&P Global

McKinsey & Company

The stock market went through four acts.

Weighted average shareholder returns by industry since February 19, 2020, %

Act 4: Anticipated recovery *(Feb 19, 2021)*



[1]A group of 25 companies with market-capitalization gains that place them in their own category.
Source: Corporate Performance Analytics; S&P Global

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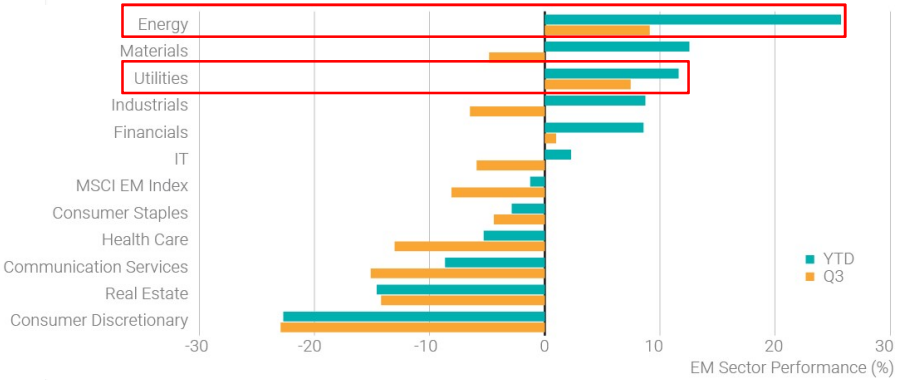
Emerging Markets Equity Performance



Source: Lazard Outlook on Emerging Markets 2021

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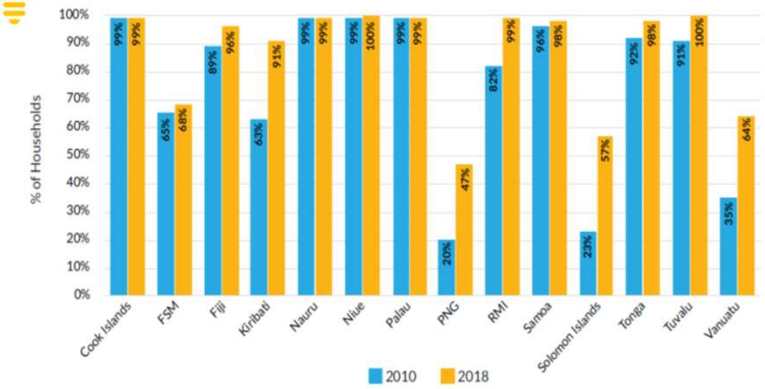
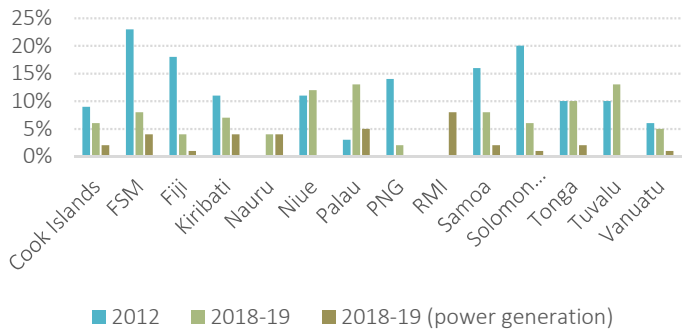
The challenges for the Pacific energy sector remain formidable

Households with access to electricity



Fuel imports as a share of GDP (2012, 2018/19)



Extreme weather events damaging and disrupting energy supply

Source: Pacific Region Infrastructure Facility (PRIF) Pacific Infrastructure Performance Indicators (PIPI) 2021

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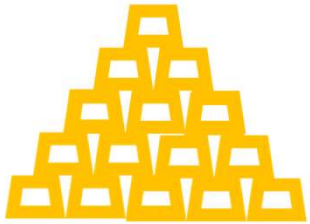
The Pacific Governments are committed and have ambitious targets

Country	Energy Access (%)		Renewable Energy (%)		Clean Cooking Access (%)	EE Target (% reduction from baseline)	GHG Reduction (% from baseline)	Investment Cost Indicated in NDCs (energy-related) (US$M)
	Current	Target	Current	Target				
Fiji	89-100	100 (by 2030)	27	100 (by 2030)	28	5.5 (by 2030)	30 (by 2030)	2,970
Kiribati	100	n.a.	46	70 (by 2025)	4	20 (by 2025)	12.8 (by 2030)	11.1
Marshall Islands (RMI)	96	100 (by 2020)	12	100 (by 2050)	65	20 (by 2030)	32 (by 2025)	175
Micronesia (FSM)	82	100 (by 2027)	2	84 (by 2037)	8	50 (by 2020)	28 (by 2025)	n.a.
Nauru	100	n.a.	1	n.a.	90	n.a.	n.a.	n.a.
Palau	100	n.a.	0	45 (by 2025)	100	35 (by 2025)	22 (by 2025)	n.a.
Papua New Guinea	15	70 (by 2030)	50	78 (by 2030)	8	n.a.	483	255.4
Samoa	98	n.a.	27	100 (by 2025)	35	n.a.	n.a.	n.a.
Solomon Islands	14-20	48 (by 2020)	49	100 (by 2030)	9	10.7 (by 2019)	30 (by 2030)	n.a.
Tonga	89	100 (by 2020)	1	70 (by 2030)	50	9 (by 2020)	n.a.	n.a.
Tuvalu	94	n.a.	13	100 (by 2025)	43	30 (by 2020)	60 (by 2025)	85
Vanuatu	28-33	100 (by 2030)	36	100 (by 2030)	8	13 (by 2030)	35 (by 2030)	n.a.

Adopted from Santagata & Rawali (2021) Status of Energy Access & Climate Action in PICTs



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Approaches towards a resilient recovery of energy sector will be multigfaceted

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Renewable energy deployment will promote socio-economic development

Electricity Production & Access	Participation to the RE value chain	Local Development	Human Capital
Better security of supply With domestic power supply	Participation of the local industry to the value chain of RE projects	Inclusive development increasing the local communities' livelihoods	Capacity building with a specific focus on women

An opportunity to build a sustainable ecosystem, resilient in the context of climate change and well-articulated in a timely manner, leveraging new opportunities offered by the scaling-up of renewable energy

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Building blocks will need to be set right for sustainable renewable energy deployment

Enabling Environment

(upstream support incl. generation & transmission planning, VRE integration, regulatory and strategic support)

Critical Public Investments

(transmission lines, solar/wind park infrastructure and PPP mini-grids/SHS)

Robust Procurement

(downstream TA support incl. transaction advisory, feasibility studies, E&S instruments)

Risk Mitigation Coverage

(guarantees for IPPs for grid-connected and off-grid projects, geothermal resource de-risking)

Blended with climate finance

→ **Leveraging private investments at scale while maximizing socio-economic benefits**

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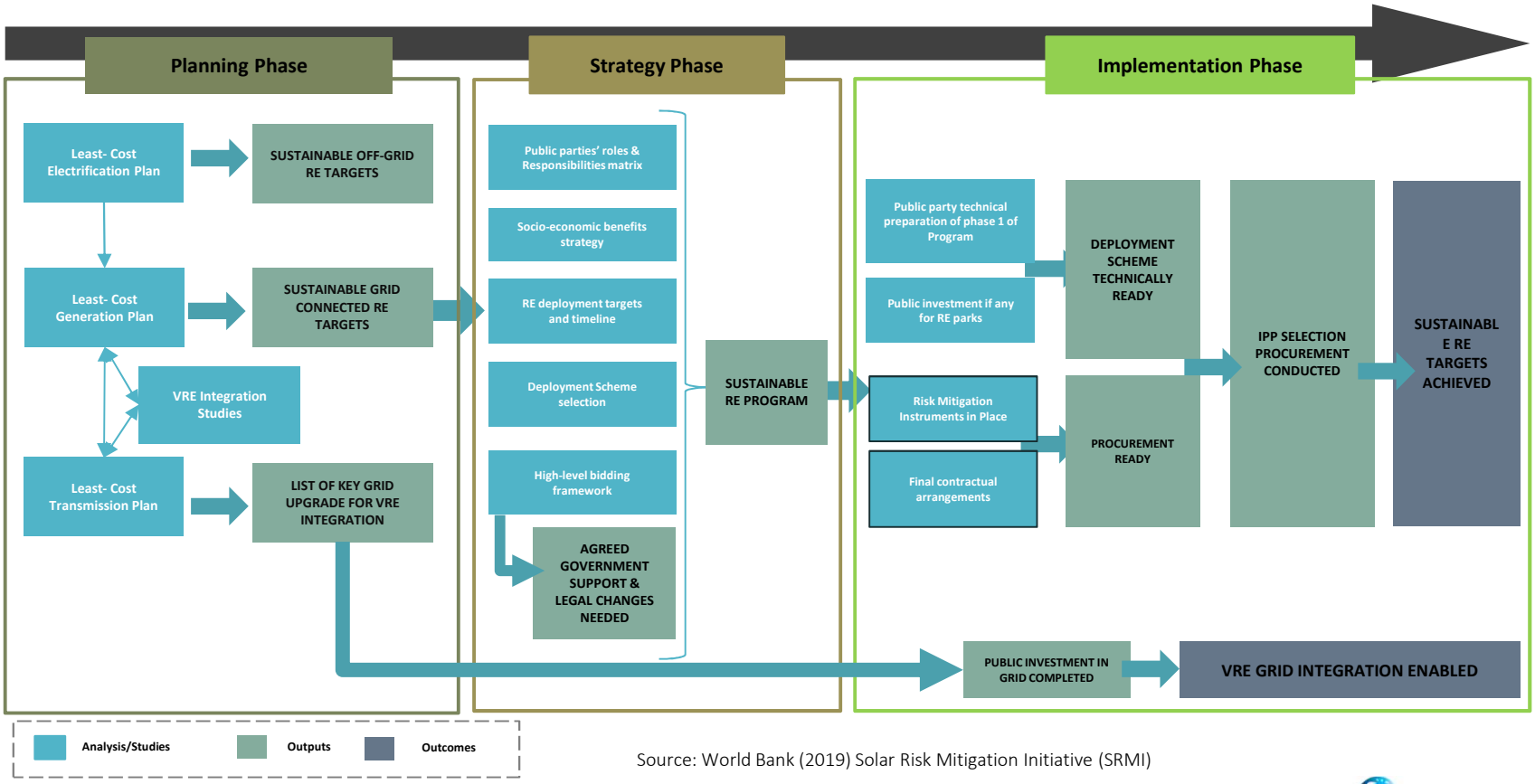
Steps for Government – back to the fundamentals



Source: World Bank (2019) Solar Risk Mitigation Initiative (SRMI)

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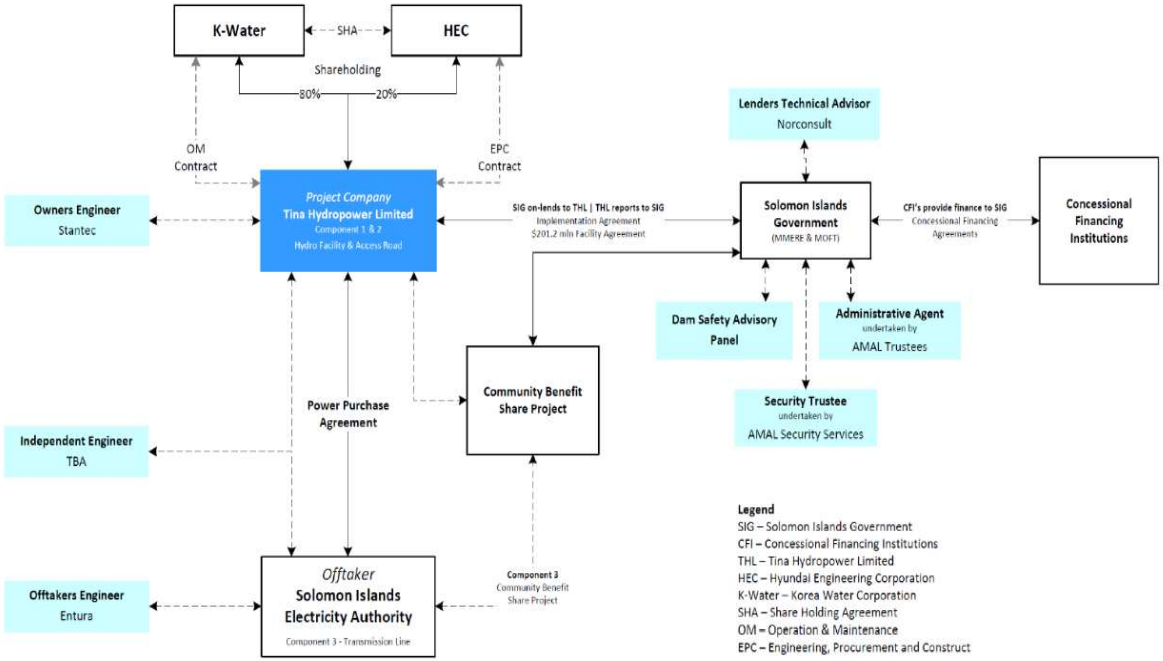
Transforming the energy sector in Solomon Islands



Six Concessional Financing Institutions: International Development Association (IDA), Abu Dhabi Fund for Development (ADFD), Asian Development Bank (ADB), Green Climate Fund (GCF), Australia, Korea EDCF

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Accelerating electrification in PNG

Enabling policy and regulatory framework for energy access

Comprehensive least-cost investments in on-grid infrastructure and off-grid market development

Institutional and capacity development

Electricity access for 70% of the population by 2030

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Finally

Investment needs are large and the investment environment is under heightened uncertainty

De-risking is key – stay vigilant and address challenges

Attention to job creation opportunities as part of infrastructure spending and fiscal stimulus

Opportunity for revisiting the basic sector fundamentals – planning, operations, financing

Harness innovation in digital and other technologies and operation practices

Focus on solid pipeline project identification and preparation

Government roles are crucial for mobilizing private capital and climate finance

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Thank you!

Mits Motohashi

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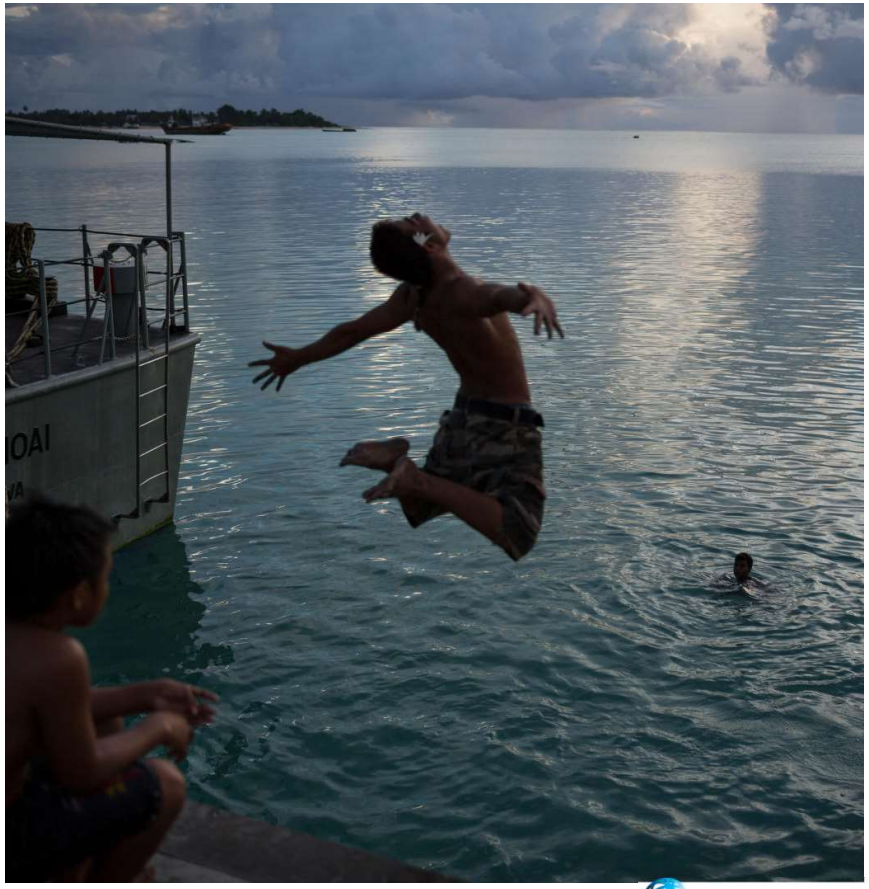

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